

E-Filed 3/10/09

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

DONG AH TIRE & RUBBER CO., LTD,

Plaintiff,

V.

GLASFOMS, INC.,

Defendant/Third-Party Plaintiff.

V.

CTG INTERNATIONAL (NORTH AMERICA)
INC., and TAISHAN FIBERGLASS, INC.,

Third-Party Defendants.

Case Number C 06-3359 JF (RS)

**ORDER¹ DENYING MOTION FOR
LEAVE TO AMEND**

RE: Docket No. 183

I. BACKGROUND

Glasforms filed its third-party complaint in this action on July 26, 2006, alleging that raw fiberglass that it purchased from CTG International (North America), Inc. (“CTG”) was

¹ This disposition is not designated for publication in the official reports.

1 contaminated with graphite, causing insulator rods that Glasforms manufactured to be
2 electrically conductive and therefore to fail when energized. CTG and Taishan Fiberglass, Inc.,
3 CTG's parent and the manufacturer of the fiberglass ("Taishan"; collectively, "Defendants")
4 deny that graphite contamination caused the failures, and maintain that Glasforms' own
5 production processes were responsible. Glasforms now contends that analysis by its experts
6 indicates that defective "sizing" of Defendants' products could have caused the failures
7 independent of whether Defendants' glass also was contaminated by graphite. Glasforms claims
8 that this analysis, combined with earlier purported "admissions" by Defendants that the graphite
9 theory was intentionally misleading, indicates that Defendants committed fraud in identifying
10 graphite as a potential culprit. Accordingly, Glasforms now seeks leave to file an amended
11 complaint alleging intentional fraud. For the reasons set forth below, the motion will be denied.

II. LEGAL STANDARD

13 Federal Rule of Civil Procedure 15(a) governs the amendment of pleadings.² The Ninth
14 Circuit has held that in light of Rule 15(a)'s "strong policy" of permitting amendments to
15 pleadings, the rule should be applied with "extreme liberality." *DCD Programs, LTD v.*
16 *Leighton*, 833 F.2d 183, 186 (9th Cir. 1987); *Howey v. United States*, 481 F.2d 1187, 1190 (9th
17 Cir. 1973). However, leave to amend "is not to be granted automatically." *Coleman v. Quaker*
18 *Oats Co.*, 232 F.3d 1271, 1294 (9th Cir. 2000) (citing *Johnson v. Mammoth Recreations, Inc.*,
19 975 F.2d 604, 609 (9th Cir. 1992)). Rather, a court must consider whether the proposed
20 amendment (1) would be futile, (2) would prejudice the non-moving party, (3) was brought in

22 ² Defendants contend that Glasforms' motion should be governed by Rule 16, which
23 requires a showing of "good cause" when amendment is sought after the pleadings have closed
24 pursuant to a scheduling order. The standard "primarily considers the diligence of the party
25 seeking the amendment." *Coleman v. Quaker Oats Co.*, 232 F.3d 1271, 1294 (9th Cir. 2000)
26 (quoting *Johnson v. Mammoth Recreations, Inc.*, 975 F.2d 604, 609 (9th Cir. 1992)). Defendants
27 likely are correct that Rule 16 applies. This Court has issued four scheduling orders imposing
28 deadlines on the filing of dispositive motions. While these orders were entered on the parties' stipulation and did not include specific deadlines governing the amendment of pleadings, such deadlines of course assume the closure of the pleadings. Nonetheless, because Glasforms' motion for leave to amend fails even the more liberal standard of Rule 15(a), the Court need not address the "good cause" requirements of Rule 16.

1 bad faith, or (4) resulted from undue delay. *Genentech, Inc. v. Abbott Labs.*, 127 F.R.D. 529,
 2 530 (N.D. Cal. 1989). The Ninth Circuit has “often affirmed the denial of leave to amend when
 3 the motion was made after the cutoff date for such motions, or when discovery had closed or
 4 was about to close.” *AmerisourceBergen Corp. v. Dialysist West, Inc.*, 465 F.3d 946, 957-58
 5 (9th Cir. 2006) (citing *Zivkovic v. S. Cal. Edison Co.*, 302 F.3d 1080, 1087 (9th Cir.2002);
 6 *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983, 986 (9th Cir.1999)).

7 III. DISCUSSION

8 Since Defendants carry the burden of showing why leave to amend should not be
 9 granted, *Genentech*, 127 F.R.D. at 530-31, the Court begins by considering their arguments in
 10 opposition to the proposed amendment. Defendants contend that amendment (1) would be futile
 11 because the record does not support a claim of fraud, (2) would cause substantial prejudice to
 12 Defendants, and (3) is the result of unreasonable delay.³

13 A. Futility

14 In urging denial of leave to amend on the basis of futility, Defendants bear a particularly
 15 heavy burden. The Court must be satisfied that “no set of facts can be proved under the
 16 amendment to the pleadings that would constitute a valid and sufficient claim or defense.”
 17 *Miller v. Rykoff-Sexton, Inc.*, 845 F.2d 209, 214 (9th Cir. 1988) (noting that the “proper test [for]
 18 determining the sufficiency of a proposed amendment is identical to the one used when
 19 considering the sufficiency of a pleading challenged under Rule 12(b)(6)”). The showing of
 20 futility must be “strong” to warrant a departure from the liberal application of Rule 15(a).

21 Defendants argue that Glasforms’ theory of fraud is defective on its face. They contend
 22 that regardless of whether the deposition testimony of their officers called into doubt the quality
 23 or accuracy of their informal, internal, pre-litigation investigative report on the cause of the
 24 failures, they consistently have denied that graphite contamination was the cause. They also
 25 point out that Glasforms’ expert reports do not in any way “prove” that graphite *or* some other

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 28 ³ Defendants do not assert that Glasforms brings its motion for leave to amend in bad
 faith.

1 purported defect was responsible for the subject product failures, and that the purported
 2 “admission” that the informal investigation report improperly identified graphite as the cause of
 3 the failures hardly demonstrates that Defendants “lied.”⁴ The Court agrees that Glasforms’
 4 theory appears to be both logically strained and factually problematic. Nonetheless, Glasforms
 5 is not moving for summary adjudication that fraud occurred, but merely for leave to amend.
 6 While the fraud claim appears to have a tenuous basis in the record and to be fraught with
 7 contradictions, the Court cannot say that no set of facts could establish fraud. Thus, if futility
 8 were the only ground on which Defendants opposed the motion for leave to amend, their efforts
 9 would be unavailing. Futility, however, is only one of the four relevant factors.

10 **B. Prejudice**

11 A showing of prejudice must be substantial to overcome Rule 15(a)’s liberal policy with
 12 respect to the amendment of pleadings. *Genentech*, 127 F.R.D. at 530-31. Neither delay
 13 resulting from the proposed amendment nor the prospect of additional discovery needed by the
 14 non-moving party in itself constitutes a sufficient showing of prejudice. *DCD Programs*, 833
 15 F.2d at 187; *Genentech*, 127 F.R.D. at 530-31; *United States v. Continental Ill. Nat’l Bank and*
 16 *Trust Co. of Chicago*, 889 F.2d 1248, 1255 (2d Cir. 1989). Nonetheless, “[d]istrict courts do
 17 not abuse their discretion when they deny motions to amend that would cause undue delay and
 18 prejudice.” *Texaco, Inc. v. Ponsoldt*, 939 F.2d 794, 798 (9th Cir. 1991); *see also Lockheed*
 19 *Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 986 (9th Cir. 1999) (“A need to reopen

20
 21 ⁴ With respect to the “admission” by CTG’s Zhicun Li that the earlier report was a “lie,”
 22 the purported admission consists of the following statement in Mr. Li’s deposition in response to
 23 the question of whether the report was false:

24 My answer is based on the needs or the requests of the customer. We did not
 25 engage in any activities that adversely impacted the interests of a third party. Our
 26 understanding was that they made requests of us to have certain documents
 27 written in a certain way. At the time, we didn’t really think very deeply into this.
 28 While certainly evasive, Mr. Li’s statement hardly is an admission. Mr. Li may well have been
 referring to the fact that the report was an internal, unsigned, unofficial report prepared in order
 to identify the problem, and given to Glasforms as a courtesy. Moreover, the report states
 expressly that while graphite was known to come into contact with the product at certain points
 in the manufacturing process, Defendants did not believe that this contamination was the cause
 of the rod failures.

1 discovery and therefore delay the proceedings supports a district court's finding of prejudice
 2 from a delayed motion to amend.”).

3 Defendants have articulated several forms of prejudice that purportedly would flow from
 4 an order granting leave to amend. They observe that fact discovery closed in late August 2008,
 5 that the last day to file dispositive motions pursuant to this Court's scheduling order was
 6 September 22, 2008, and that they have had no opportunity to conduct discovery with respect to
 7 the alleged fraud or to move for summary adjudication as to that claim. Moreover, because
 8 Glasforms now requests punitive damages in connection with the proposed fraud claim,
 9 Defendants contend that the lack of relevant discovery is particularly prejudicial. The Court
 10 largely agrees. If leave to amend were granted, Defendants would be entitled to further
 11 discovery from Glasforms' fact witnesses with respect to the proposed fraud claim, thus
 12 delaying the proceedings, further increasing the costs of this already protracted litigation, and
 13 causing substantial prejudice to Defendants.⁵

14 **C. Unreasonable delay**

15 While delay alone will not justify the denial of leave to amend, *DCD Programs*, 833
 16 F.2d at 186, “late amendments to assert new theories are not reviewed favorably when the facts
 17 and the theory have been known to the party seeking amendment since the inception of the cause
 18 of action.” *Acri v. International Ass'n of Machinists & Aerospace Workers*, 781 F.2d 1393,
 19 1398 (9th Cir. 1986) (citations omitted). In depositions taken in September 2006, Glasforms
 20 aggressively asserted that CTG and Taishan had “lied” in suggesting graphite contamination in
 21 their internal report summarizing the informal investigation of the rod failures. Glasforms
 22 therefore knew the alleged facts giving rise to its fraud claim. To justify its lengthy delay in
 23 bringing the instant motion, Glasforms argues that the fraud was not confirmed until its own
 24 experts provided an alternative explanation for the rod failures—an explanation that Glasforms
 25 claims Defendants sought to suppress by focusing deceptively on graphite contamination as the

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 27 ⁵ The Court also is sympathetic to Defendants' underlying concern that Glasforms, which
 28 for three years has argued graphite contamination as the cause of the failures, now is seeking to
 acquire “litigation insurance” in the form of an alternative theory.

1 potential culprit. Setting aside Defendants' consistent denial of the graphite explanation both in
 2 the internal report they provided to Glasforms and throughout this litigation, it is clear that
 3 Glasforms had knowledge of the factual predicate of the proposed fraud claim. Under the
 4 present circumstances, this knowledge warrants denial of leave to amend. *See Chodos v. West*
 5 *Publishing Co.*, 292 F.3d 992, 1003 (9th Cir. 2002) (affirming denial of leave to amend where
 6 plaintiff sought to add a fraud after “*learn[ing] new facts that supported that claim* shortly
 7 before the close of discovery” because the relevant *facts* had been known to plaintiff); *Wood v.*
 8 *Santa Barbara Chamber of Commerce, Inc.*, 705 F.2d 1515, 1520 (9th Cir. 1983) (affirming
 9 denial of leave to amend where amendment would have changed the legal theory and likely
 10 would have been futile on the merits). Glasforms' explanation of its delay appears to be driven
 11 by frustration with the course of discovery, during which Glasforms may have focused unduly
 12 on graphite contamination. That frustration fails to justify Glasforms' untimely motion.

13 IV. DISPOSITION

14 Glasforms' assertion that graphite contamination was responsible for the subject failures
 15 and its simultaneous claim that Defendants “lied” in pointing to graphite contamination as a
 16 cause of the failures obviously is inconsistent. This inconsistency might be acceptable at an
 17 earlier phase in the proceedings,⁶ but for the reasons set forth above it will not be permitted at
 18 this late date. Allowing Glasforms to assert a fraud claim at this stage in the litigation would
 19 result in substantial prejudice to Defendants. In addition, Glasforms' cannot argue credibly that
 20 its substantial delay was justified because the alleged fraud was not “revealed” until the opinions
 21 of its own experts somehow supplied a previously absent “motivation” for Defendants' conduct.
 22 Even under the liberal standard governing the amendment of pleadings, “[a] party is not entitled
 23 to wait until the discovery cutoff date has passed and a motion for summary judgment has been
 24 filed on the basis of claims asserted in the original complaint before introducing entirely
 25 different legal theories in an amended complaint.” *Priddy v. Edelman*, 883 F.2d 438, 446-47

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 27 ⁶ “A party may plead alternative theories of liability, even if those theories are
 28 inconsistent or independently sufficient. Further, a party may allege inconsistent factual
 allegations.” *Cellars v. Pac. Coast Packaging, Inc.*, 189 F.R.D. 575, 578 (N.D. Cal. 1999).

1 (6th Cir. 1989). Glasforms' motion runs afoul of this prohibition and must be denied.
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3 **IT IS SO ORDERED.**

4 DATED: 3/10/09

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6 JEREMY FOGEL
7 United States District Judge

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